

Volume No. 1— Policies and Procedures	TOPIC NO	30105
Function No. 30000—Fixed Asset Accounting	TOPIC	Introduction
Section No. 30100— FAACS Overview	DATE	July 2003

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Overview

Introduction	The purpose of the Commonwealth's fixed asset accounting procedures is to provide auditable information for the Comprehensive Annual Financial Report (CAFR), and to help ensure that property, plant, and equipment are acquired, controlled, and disposed of in the best interests of the Commonwealth. The Fixed Asset Accounting and Control System (FAACS) facilitates this process. State agencies and institutions must have policies and procedures in place to ensure that assets that meet the criteria contained in this topic are properly recorded in FAACS. Each State agency and institution must be either a "central" or "summary" user as defined in subtopic "Types of Users."
LAS	Closely related to FAACS is the Lease Accounting System (LAS) which is a personal computer based system. It is designed to assist the Commonwealth in meeting the requirements set forth in the Statement of Financial Accounting Standards (SFAS) 13. The system calculates implicit interest rates and other data for economic analysis purposes. Refer to CAPP Topic 31200, <i>Lease Accounting</i> , for procedures on using this system.
Policy Exceptions	Agencies requesting an exception to any fixed asset accounting policy must submit a written request to the State Comptroller for approval. The request must be signed by the agency head or designee detailing the justification for the exception.
Types of Users	<p>FAACS has been designed as the single, Statewide property management system and has two types of users as follows:</p> <ul style="list-style-type: none"> • <u>Central FAACS Users</u> Agencies that record detailed fixed asset accounting information in FAACS for all assets owned or leased that meet capitalizable or controllable requirements. • <u>Summary FAACS Users</u> Agencies that use property management systems (automated or manual) other than FAACS. These agencies and institutions must comply with CAPP Topic 31010, <i>Summary Users</i>, to provide all required fixed asset transaction information in summary form.

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Definitions

Category 1: Land

Is non-expendable, real property whose title is held by a state agency.

Category 2: Buildings

All real estate, excluding land, which are used for shelter, dwelling, and other similar agency purposes. The Statewide definition is any "roofed structure for permanent or temporary shelter of persons, animals, vegetation, or equipment."

The Department of General Services, Division of Engineering and Buildings, Bureau of Real Property Management, maintains a system for real estate transactions. The Real Property Management system records and reports information on the physical aspects of land and buildings. See CAPP Topic 30310, *Asset Categorization*, for further details.

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Category 3: Infrastructure

Includes all improvements not specifically identifiable to an individual building other than nondepreciable improvements to land parcels such as grading or filling expenditures. Included are agency-maintained infrastructures such as roads, bridges, curbs, surface gutters, street, sidewalks, drainage systems, parking lots, lighting systems and similar assets which, while not identifiable to any particular structure, nevertheless have a quantifiable value to the agency. Examples of "Infrastructure or Improvements Other Than Buildings as this category was formerly designated" are listed below along with additional descriptive information that would normally be entered in the asset record.

Roads and Bridges: Include only those roads and bridges that are maintained by the agency and that are not maintained by the Virginia Department of Transportation (VDOT).

Paving: Include total dimensions of the site and qualitative information such as the existence of related earth berms and parking lot striping.

Fencing: Total linear feet, including gates, etc. List by type.

Concrete Work: Sidewalks, flatwork, etc. List of total areas of various types. List curbs separately.

Misc. Structures: Small structures not listed by separate location such as sheds, sign posts, bleachers, etc. List individually without regard to component breakdown.

Plumbing: List as total plumbing for the site, including drain irrigation, drinking fountains, hose bibbs, and on-site sewer.

Electrical: List area lighting separately from miscellaneous and electrical service.

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Category 4: Equipment

Agency property of any kind which meets the following criteria:

- Is complete in itself ;
- Does not lose its identity or become a component of the building where it resides; and,
- Is of a durable nature with an expected service life of more than one year.

Items that are either built in or largely immobile, e.g., large machinery or laboratory benches, are equipment items since they are separately identifiable. Central air conditioning and heating systems for a building are building components and are not capitalizable as equipment items.

Construction in Progress (Summary Maintenance)

A balance sheet classification which represents a temporary capitalization of labor, materials, and equipment of buildings or other fixed assets (capital projects) that are under construction.

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Policy

General

Agencies will maintain proper stewardship over all agency fixed assets. Specifically agencies are required to:

- Maintain internal controls and an internal control environment that ensures the proper control and safeguarding of all agency owned or otherwise utilized fixed assets. This control environment will be reviewed during annual audits performed by the Auditor of Public Accounts (APA).
- Provide for Generally Accepted Accounting Principles (GAAP) basis financial reporting in the appropriate format. Also, where applicable, provide accurate and timely reports to the federal government in accordance with their requirements. This may be accomplished through the utilization of central FAACS or an acceptable agency based-fixed asset system (refer to CAPP Topic 31010, *Summary Users*, and CAPP Topic 70105, *Agency-based Automated Accounting Systems*, regarding use of fixed systems other than central FAACS).
- All fixed assets valued at \$5,000 or greater on an historical cost basis must be capitalized in FAACS.
- Proper stewardship must be maintained over all agency fixed assets, including those valued at less than \$5,000. The agency has the discretion to develop its own policy regarding controlling or tracking assets valued at less than \$5,000.
- Establish and maintain procedures to ensure that proper reconciliations and corrections are made on a timely basis. Refer to CAPP Topic 30905, *Reconciliation and Error Correction Requirements*.
- Ensure that all depreciation, where applicable, is calculated, summarized and reported on a basis consistent with GAAP. Refer to CAPP Topic 30610, *Depreciation Method and Calculation*, which requires use of the straight-line method.
- Establish and publish agency internal policy and procedures, as necessary to supplement CAPP, regarding stewardship over fixed assets.

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Accuracy of Fixed Asset Presentation

The importance of the depreciation calculation and accuracy of presentation of depreciation information should be stressed, as should the accuracy of presentation of the asset value at historical cost. Accuracy of fixed asset presentation relies on the following:

- Funding amount presented as historical cost (GAAP) should be accurate and supported by appropriate source documents. Refer to CAPP Topic 30210, *Acquisition Valuation*.
- Acquisition date must be accurate. Assets should be added to FAACS during the fiscal year acquired. Additionally, reasonable estimates of useful life and salvage value must be made and entered into the asset record. Refer to CAPP Topic 30210, *Acquisition Valuation*.
- Agencies should develop and periodically update a methodology for assigning asset useful lives. Useful lives contained in the nomenclature code table are based on IRS estimates. Governmental organizations often use fixed assets longer than private sector for profit businesses. Agencies should consider actual use patterns for different types of assets and take into account the actual length of time the agency has used different assets over time in the past. This focus should be incorporated into agency useful life estimate methodology. Refer to CAPP Topic 30605, *Useful Life*.
- Agency methodology for estimating and assigning reasonable useful lives should include requesting new nomenclature codes from DOA if appropriate codes are not contained in the nomenclature code table. Refer to CAPP Topic 30315, *Nomenclature Codes*.
- Agencies should perform a periodic review and update of asset useful lives to ensure that the useful life closely mirrors the actual life of the asset. Refer to CAPP Topic 30605, *Useful Life*.
- Agencies should develop and periodically update a methodology for estimating salvage value that is based on the type of asset, its obsolescence and degree of usefulness at disposal and the nature of the disposal process. The estimate of useful life should also be a factor in estimating salvage value. Salvage value will become a required field in FAACS. However, zero will be an allowed value. Refer to CAPP Topic 30210, *Acquisition Valuation*.

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Accuracy of Fixed Asset Presentation continued

- When an asset has been disposed, its book value must be removed from the appropriate fixed asset GLA balances. Agencies should periodically review fixed asset information contained in FAACS to ensure that assets that are no longer under the control of the agency have been properly disposed in FAACS. Disposal date must be accurate, as should the other disposal-related fields. Disposals should be recorded in FAACS during the fiscal year in which an asset was actually disposed. Refer to CAPP Topic 30805, *Disposal Management*.
- Agencies should periodically review fixed asset information contained in FAACS to ensure that assets having a surplus status are properly classified as surplus. Refer to CAPP Topic 30705, *Surplus Property Management*.

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Internal Control

General

Agency heads are responsible for maintaining an adequate system of internal controls within the agency. Such a system includes authorization for making vendor payments and other expenditures of State funds and includes granting security access to Statewide accounting and budgeting systems, including FAACS. This responsibility is frequently delegated to the agency fiscal officer. As long as the agency has sufficient internal controls to ensure that agency fixed assets are safeguarded and fixed assets financial balances are fairly presented, the agency will be considered to be in compliance with DOA policy as it applies to FAACS.

Agencies should establish adequate and cost beneficial internal control systems to ensure that:

- Fixed assets are acquired for use in furthering the agency's programs and missions;
- Those assets that are within the required capitalizable or controllable limits are recorded in FAACS;
- Proper stewardship and control over assets is carried out, including periodic inventories; Financial statements reflect proper fixed asset balances;
- Assets are reasonably protected from theft;
- Internal procedures are documented in writing; and
- Proper segregation of duties is maintained.

DOA Contact

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References	<hr/> CAPP Topic No. 30210— <i>Acquisition Valuation</i> CAPP Topic No. 30305— <i>Capitalized or Controlled Assets</i> CAPP Topic No. 30310— <i>Asset Categorization</i> CAPP Topic No. 30315— <i>Nomenclature Codes</i> CAPP Topic No. 30605— <i>Useful Life</i> CAPP Topic No. 30610— <i>Depreciation Method and Calculation</i> CAPP Topic No. 30705— <i>Surplus Property Management</i> CAPP Topic No. 30805— <i>Disposal Management</i> CAPP Topic No. 30905— <i>Reconciliation and Error Correction Requirements</i> CAPP Topic No. 31010— <i>Summary Users</i> CAPP Topic No. 31200— <i>Lease Accounting</i> CAPP Topic No. 70105— <i>Agency-based Automated Accounting Systems</i> <hr/>
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